

Corporate Governance

Santen recognizes that it is vital to upgrade and strengthen corporate governance in order to achieve and enhance corporate value, and thus returns to shareholders. Accordingly, Santen is working to raise business performance while maintaining transparent and sound management practices through the development of effective corporate governance systems.

Governance Systems

Board of Directors

In addition to various statutory functions, the Board of Directors formulates management policies, strategies and business plans for the Santen Group. The Board of Directors makes decisions relating to the acquisition or disposal of major financial assets and important organizational or personnel-related moves, and oversees the execution of business at Santen and its subsidiaries. The Board convenes once a month in principle. As of July 31, 2009, the Board comprised seven members including three outside directors. The Board of Directors convened 14 times during fiscal 2008.

Board of Corporate Auditors

Santen has adopted a governance system using corporate auditors. The Board of Corporate Auditors consists of four members, including outside auditors.

Corporate auditors formulate auditing policies and plans and attend Board of Directors' and other important business meetings as well as oversee the execution of duties by directors through auditing the operational and financial status of Santen's head office, major operating sites and subsidiaries. The Board of Corporate Auditors convened eight times during fiscal 2008

Voluntary Committees

Santen has established the following three committees composed of inside and outside directors as deliberative bodies to further strengthen corporate governance and to improve management transparency and objectivity.

- The Corporate Strategy Committee deliberates on key strategic issues such as business strategies.
- The Nominating Committee deliberates on the selection of directors and submits recommendations to the Board of Directors as well as deliberating on the selection of corporate officers and corporate auditors and submitting recommendations to the Board of Directors.
- The Executive Compensation Committee deliberates on the compensation of directors and corporate officers and submits recommendations to the Board of Directors.

Note that these committees are not part of any statutory "Company with Committees" under Japan Corporate Law.

Corporate Officer System

Santen has introduced a corporate officer system to strengthen management while improving the quality and speed of strategic decision-making processes. There were eight corporate officers at the end of July 2009, excluding some serving concurrently as directors.

Internal Governance System

Santen benefits society with a particular focus on contributing to the health and quality of life of patients and their loved ones, which includes Santen's core value, as a company active in the pharmaceuticals industry. At the same time, aiming to heighten society's recognition of our value and achieve sustainable growth, we are developing the following internal control systems.

Our compliance system, the Santen Corporate Ethics Mission, which was formulated in December 1999 and revised in line with changing social conditions, consists of a corporate action declaration and a corporate code of conduct that defines strict ethical standards governing corporate activities. The Santen Corporate Ethics Mission stipulates that the Company will not respond to any demands whatsoever made by

Santen Internal Governance System (as of July 2009)



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antisocial forces that threaten the order and stability of civilian society.

In addition, we have established a CSR Committee as a Companywide lateral organization tasked with ensuring rigorous compliance. Further, we maintain an internal system for compliance-related enquiries and an external helpline to an attorney, which enable employees to report directly any suspected compliance violations or to receive advice.

Santen has built a system for responding appropriately to major risks related to its business activities, which is based on a risk management manual that sets out basic policies and a code of conduct for crisis management. Operating divisions and headquarters avoid or minimize risk by routinely gathering information and preparing risk management policies and countermeasures for their operations. Further, the Risk Evaluation Committee discusses risk management policies and countermeasures for significant risks that transcend several divisions.

An emergency situation affecting Santen beyond a certain level triggers the operation of a Crisis Response Committee headed by a representative director. Based on Santen's Risk Management Manual, this committee coordinates efforts to minimize any losses or damages and institutes measures to prevent recurrence. The Administration division checks the status of such risk management efforts from a Companywide viewpoint, while the Internal Audit Group examines them from an independent standpoint.

Regarding information control systems, Santen appropriately stores and controls information relating to the execution of duties by directors based on in-house rules for basic information security, decision-making authority and document control.

Santen aims to increase the appropriateness of the Santen Group's operations, which comprise the operations of the Company and its subsidiaries, by building a control system in which the Company

provides recommendations and guidance on increasing appropriateness, developing regulations for the control of Group companies to clarify their roles and responsibilities and strengthening audit functions at major Group companies.

As a department independent from operating divisions, the Internal Audit Group—comprised of three people including the chief officer—verifies that the above internal control systems work efficiently.

Regarding internal control related to the reliability of financial reports, Santen has established a system whereby divisions and principal subsidiaries check the appropriateness of their systems, and the Internal Audit Group checks the suitability of these self-checks. In fiscal 2008, Santen did not discover any significant deficiencies or omissions that could undermine the reliability of its financial reports. Santen will continue to develop and maintain systems that consistently meet the requirements of the internal control reporting system, which is based on Japan's Financial Instruments and Exchange Law.

Internal Audits and Corporate Auditors' Audits

Cooperation between Corporate Auditors and Independent Auditors

The corporate auditors hold a meeting with the independent auditors at the beginning of each fiscal year to receive presentations on the financial auditing plans for the year and any key audit-related issues, and to exchange opinions including corporate auditors' requests. The independent auditors present audit findings to the corporate auditors at meetings twice a year to exchange opinions.

In addition, the corporate auditors attend an audit review meeting with the independent auditors after the conclusion of the quarterly and year-end audit review to share comments on audit results and procedures.

Cooperation between Corporate Auditors and the Internal Audit Group

The corporate auditors inform the Internal Audit Group of any specific audit-related issues or future risk-related items that may be identified in the course of auditing Santen's head office or operating sites.

The Internal Audit Group also reports to the corporate auditors any important information gained from internal audits and related measures. The corporate auditors may provide support to the Internal Audit Group in implementing countermeasures as deemed necessary.

Compensation for Directors and Corporate Auditors

Total remuneration for directors and corporate auditors for fiscal 2008 equaled ¥314 million. The breakdown is as follows:

1. Compensation paid to directors:

¥268 million

(of which ¥31 million was paid to outside directors)

2. Compensation paid to corporate auditors:

¥46 million

(of which ¥22 million was paid to outside auditors)

Relationships between the Company and its Outside Directors and Outside Auditors

There are no special interest relationships between the Company and its outside directors and outside auditors.

Outline of Agreements to Limit Responsibilities

To invite and appoint competent experts to work for the Company as outside directors or outside auditors to ensure further management transparency and objectivity and further reinforce the audit system, the Company stipulates in its Articles of Incorporation that it can enter into an agreement with outside directors and outside auditors to limit their liabilities for compensation of damage they might incur within a certain range.